

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**Road Commission for Oakland County
Retiree Health Care Trust**

**Financial Report
with Required Supplemental Information
December 31, 2006**

Road Commission for Oakland County Retiree Health Care Trust

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Independent Auditor's Report

To the Trust Administrator
Road Commission for Oakland
County Retiree Health Care Trust

We have audited the statement of Trust net assets of the Road Commission for Oakland County Retiree Health Care Trust (a component unit of the Road Commission for Oakland County) as of December 31, 2006 and the statement of changes in Trust net assets for the period from January 26, 2006 (inception) through December 31, 2006. These financial statements are the responsibility of the Road Commission for Oakland County Retiree Health Care Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The most recent actuarial valuation of the retiree health care liability was performed on December 31, 2003. Generally accepted accounting polices require that actuarial valuation of the accrued actuarially liability disclosed within the financial statements be performed within two years of the date of the financial statements.

In our opinion, except for the fact that the latest available actuarial valuation is as of a date in excess of two years from the balance sheet date as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the plan net assets available for benefits of the Road Commission for Oakland County Retiree Health Care Trust as of December 31, 2006 and the changes in plan net assets for the period from January 26, 2006 through December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the method of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 29, 2007

Road Commission for Oakland County Retiree Health Care Trust

Management's Discussion and Analysis

The trust was created on January 26, 2006 by the Road Commission for Oakland County. Our discussion and analysis of the financial performance of the Road Commission for Oakland County Retiree Health Care Trust (the "Trust") provides an overview of the Trust's financial activities for the period from January 26, 2006 through December 31, 2006. No activity exists for any prior period. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below displays key financial information in a condensed format for the period from January 26, 2006 through December 31, 2006.

Total assets	\$ 9,944,823
Total liabilities	<u>-</u>
Net assets held in trust for medical benefits	<u>\$ 9,944,823</u>
Net investment income	\$ 619,823
Employer contributions	\$ 9,325,000

Overall Fund Structure and Objectives

The Trust was established to provide medical benefits to plan members, retirees, and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future.

Road Commission for Oakland County Retiree Health Care Trust

Management's Discussion and Analysis (Continued)

Asset Allocation

The Trust Administrator has directed the Trust's assets to be invested in the Investment Services Program (ISP) of the Municipal Employees' Retirement System (MERS) of Michigan. Using the ISP pooled investment product, the Trust's assets are pooled with the other investments managed by MERS and are allocated according to the MERS ISP investment policy statement. MERS has extensive experience with very substantial pooled funds which have historically experienced very acceptable investment results. The following is a summary of the ISP asset allocation guidelines as of December 31, 2006:

Equities:

Large cap growth	5.7%
Large cap value	10.5%
Large cap core	3.8%
Mid cap growth	1.9%
Mid cap value	2.1%
Mid cap core	2.0%
Small cap growth	3.1%
small cap value	4.6%
Small cap core	2.1%

Convertibles	0.80%
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International Equities:

Active International	5.30%
Enhanced International	4.20%
Core International	3.20%
Small Cap International	3.60%

Core Fixed Income	18.00%
Global Fixed Income	5.40%

High Yield	4.90%
Real Estate	7.60%
Private Equity	7.90%
Commodities	1.90%
Cash	1.40%

Total	<u>100.0%</u>
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Road Commission for Oakland County Retiree Health Care Trust

Management's Discussion and Analysis (Continued)

Economic Factors, Investment Returns, and Other Important Matters

In 2006, the U.S. stock market rewarded investors with its robust growth. Led by increases in productivity and by a sustained level in capital investment and inventory rebuilding, the equity markets provided investors with a positive rate of return. However, the short-term economic outlook remains cautious due to the continued uncertainty about future interest rate levels and oil product supply availability and price.

Because the stock market is the principal investment forum utilized by the Trust, the market's 2006 market rate of return had a positive impact on the Trust. In 2006, contributions to the trust generated approximately \$620,000 in net investment income, or 8.9 percent. It is important to note that the Trust's purpose is to hold funds to provide long-term benefit payments. It is through long-term investing that these promised benefits will be primarily funded. Through its asset allocation, the Trust Administrator has positioned the portfolio for this long-term investment objective. In addition, to further maximize investment returns, the Trust Administrator carefully monitors the performance of the portfolio and will take the necessary corrective actions to ensure acceptable investment results.

Since the Trust receives all of its new funding from its plan sponsor, the Road Commission for Oakland County's annual contribution is critical for the Trust's long-term viability.

Contacting the Trust's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties a general overview of the Trust's finances and to show the Trust's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

Road Commission for Oakland County Retiree Health Care Trust

Statement of Trust Net Assets December 31, 2006

Assets - Interest in pooled investments	\$ 9,944,823
Liabilities	<u>-</u>
Net Assets Held in Trust for Retiree Health Care Benefits	<u>\$ 9,944,823</u>

Road Commission for Oakland County Retiree Health Care Trust

Statement of Changes in Trust Net Assets For the Period January 26, 2006 through December 31, 2006

Additions

Investment income:	
Interest and dividends	\$ 341,596
Net appreciation in fair value of investments	301,643
Less investment expenses	<u>(23,416)</u>
Net investment income	619,823
Employer contributions	<u>9,325,000</u>
Total net additions	9,944,823

Net Assets Held in Trust for Retiree Health Care Benefits

January 26, 2006	<u>-</u>
December 31, 2006	<u><u>\$ 9,944,823</u></u>

Road Commission for Oakland County Retiree Health Care Trust

**Notes to Financial Statements
December 31, 2006**

Note 1 - Summary of Significant Accounting Policies

The Road Commission for Oakland County Retiree Health Care Trust (the "Trust") was established by the Road Commission for Oakland County on January 26, 2006 to administer funds for the payment of medical benefits. The Trust is a part of a single-employer retiree health care plan that is administered by the Road Commission for Oakland County Retirement System board of trustees (The Trust Administrator). The plan covers substantially all employees and retiree's of the Road Commission for Oakland County. The Trust's financial statements are also included in the combined financial statements of the Road Commission for Oakland County as a Retiree Health Care Trust Fund.

Basis of Accounting - The Trust uses the accrual method of accounting. Contributions are recognized when authorized by the Road Commission for Oakland County. Benefits are recognized when due and payable from the Trust's assets.

Method Used to Value Investments - Investments are recorded at fair value, based on quoted market prices.

Note 2 - Plan Description

The Trust provides for future payment of medical benefits for eligible retirees and their spouses and dependents. The obligation to provide benefits to employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 309 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, 358 vested active employees, and 193 nonvested active employees.

Note 3 - Contributions

The Road Commission may partially or fully fund the liability of the Trust by periodically making contributions to the Trust. The amount of the contribution will be based upon actuarial calculations and will be actuarially calculated no less than every two years.

Since neither the Road Commission for Oakland County, nor the Trust had any requirement to record a liability for any potential under funding of the Retiree Health Care Plan as of December 31, 2006, in the interest of economics no actuarial report has yet been obtained for any period subsequent to the year ended December 31, 2003.

Road Commission for Oakland County Retiree Health Care Trust

Notes to Financial Statements December 31, 2006

Note 3 - Contributions (Continued)

There were no administrative costs incurred during the current period. Future administrative costs will be financed by the Trust. Certain administrative costs related to the establishment of the Trust were financed by the Road Commission for Oakland County.

Note 4 - Reserves

As of December 31, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for benefit payments	\$ 9,944,823
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Note 5 - Funded Status and Funding Progress

The funded status of the Trust as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	AAL as a Percentage of Valuation Payroll
12/31/03	-	\$ 112,432,239	\$ 112,432,239	0.00%	\$ 28,259,643	397.85%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the annual required contributions (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Road Commission for Oakland County Retiree Health Care Trust

**Notes to Financial Statements
December 31, 2006**

Note 5 - Funded Status and Funding Progress (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

<u>Years Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2006	\$ 9,325,000	100.0
Actuarial cost method	Individual entry age, normal cost	
Amortization method	Level percent of payroll contributions, closed periods	
Remaining amortization period	30 years	
Asset valuation method	Market value with five-year smoothing of gains and losses	
Actuarial assumptions:		
Investment rate of return*	7.5%	
Projected salary increases*	4.5% to 8.0%	
Cost of living adjustments	None	
Healthcare cost trend rate *	12% initial 5% ultimate	

* Includes pay inflation at 4.5%

Road Commission for Oakland County Retiree Health Care Trust

**Notes to Financial Statements
December 31, 2006**

Note 6 - Cash and Investments

The Trust is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles. The Act places percentage limitations on certain investments.

The Trust has designated one bank for the deposit of its funds. The Trust's deposits and investment policies are in accordance with statutory authority.

At December 31, 2006 the Trust's assets were invested in the Investment Services Program (ISP) of the Municipal Employees' Retirement System (MERS) of Michigan. Using the ISP pooled investment product, the Trust's assets are pooled with the other investments managed by MERS and are allocated according to the MERS ISP investment policy statement, which is consistent with the statutory authority described above.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Trust. The Trust has no investment policy that would limit its investment choices other than what is allowed by state law. The Trust's funds are invested solely in a pooled investment fund administered by the MERS Retirement Board. The investment pool administered by MERS is not rated as to credit quality.

Note 7 - Risk Management

The Trust's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The Trust manages this risk by participating with the Road Commission for Oakland County in its partially self-insured liability program.

Required Supplemental Information

Road Commission for Oakland County Retiree Health Care Trust

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	Unfunded AAL as a Percentage of Valuation Payroll
12/31/03	-	\$ 112,432,239	\$ 112,432,239	0.00%	\$ 28,259,643	397.85%

Road Commission for Oakland County Retiree Health Care Trust

Required Supplemental Information Schedule of Employer Contributions

<u>Years Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2006	\$ 9,325,000	100.0

The information presented above was determined as part of the actuarial valuations as of December 31, 2003. Additional information as of December 31, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age, normal cost
Amortization method	Level percent of payroll contributions, closed periods
Remaining amortization period	30 years
Asset valuation method	Market value with five-year smoothing
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 8.0%
Cost of living adjustments	None
Healthcare cost trend rate *	12% initial 5% ultimate

* Includes pay inflation at 4.5%